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ABSTRACT

This document comments on the major points of the June 1973 Carnegie Commission Report "Higher Education: Who Benefits? Who Pays". It is suggested that an outstanding characteristic of the report is that it is full of contradictions. Many of its observations, generalized recommendations, and stated goals, are such as would command a general consensus of support by the public, and the higher education community. But many of the specific recommendations and illustrations of actions required to carry them out would if implemented have the opposite result to that viewed as desirable by the Commission. Specific topics discussed include: tuition levels, state responsibility for the institutional welfare of higher education within its borders, the tuition gap, the Carnegie Commission and institutional support, and the National Student Loan Bank. (Author/MJM)

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November 13, 1973

Comments on the Carnegie Commission report:

Higher Education: Who Benefits? Who Pays? Who Should Pay?

Note: The comments in this paper express purely the views of the author.

Paper delivered at annual meeting NASULGC Denver, Colorado.

Your chairman has titled my remarks as a response to the June, 1973, Carnegie Commission report: Higher Education: Who Benefits? Who Pays? Who Should Pay? I'm complimented, but under no illusions.

The report, which I shall refer to as Who Pays? consists of 190 pages full of tables, charts, and graphs, based on references full of statistics, charts, tables, and graphs. The selection and interpretation of the data, the conclusions to be drawn from them are--in turn--the product of a highly subjective process, as is immediately clear to any one who takes the trouble to read them. A really substantive analysis of the report would require much more time, and statistical expertise, than I possess. I can only comment on a few major points.

An outstanding characteristic of the report, as I read it, is that it is full of strange contradictions. Many of its observations, generalized recommendations, stated goals, are such as would command a general consensus of support by the public, and the higher education community. But many of the specific recommendations, and illustrations of actions required to carry them out, would if implemented have the opposite result to that viewed as desirable by the Commission. For example: The Commission says that maintenance of strong and diversified systems of public and private higher education is

highly desirable. It then recommends that responsibility for the institutional welfare of private higher education (including fiscal support) be placed primarily with the states in which these institutions are located--a recommendation most likely to eliminate the distinctions cherished as desirable. The Commission states it would be wrong to place upon certain students and their families, the fiscal burden of providing access to higher education for additional large numbers of the economically disadvantaged. Its recommendations on tuition policy, as stated in terms of actions required to implement them, would to a substantial extent do precisely what the Commission says should not be done.

There are many other examples of this strange dichotomy between the statement of ends and the recommendation of means. Members of the Commission are, individually and collectively, I believe, strongly opposed to a high degree of national centralization of responsibility for policy-making, for "control" of higher education. Yet its recommendations that Federal involvement in higher education, at the undergraduate level, be concentrated almost exclusively on large scale grants and loans to students, and that states adjust their policies to "fit" the federal pattern, seem to me to be a long step in the direction of Federalization. You cannot make a majority of U.S. students directly dependent on Federal programs for access to higher education, with the states in the role of coordinating to Federal action, and institutions dependent on the result, without a heavy centralization of administrative and legislative control in Washington.

Diversity and variety in the forms and modes of Federal support are essential, if we are to preserve a substantial degree of decentralization and

autonomy, in terms of either public or private higher education. The Carnegie Commission, it is true, does recommend diversity and variety as among the states, and indicates alternative patterns. Yet it always makes clear its preferred pattern, linked to the Federal and state programs it advocates.

As the Chairman of the Carnegie Commission told the Southern Regional Education Board's legislative workshop in August of this year: "...the United States has the best overall system of higher education in the world. It is marked by high quality as well as by high quantity, by diversity, by comparatively dynamic adjustment to changing conditions." The recommendations in the report under discussion would, in my opinion, result in basic changes in support and control, in a diminution of diversity and variety, much more drastic than is generally understood by the public or--I am sure--intended by members of the Commission.

Let me now turn to specific topics.

Tuition Levels

The meaning of the Carnegie recommendations as to future tuition policy in public institutions is, to use a well worn figure of speech, a mystery wrapped in an enigma. The "media"--educational and otherwise--have universally interpreted the Commission as recommending a doubling--or more than a doubling--of tuition levels over the next decade. They have reported that the Commission found that the average student in public higher education now pays only 17 per cent of his or her educational cost (15 per cent if a resident student), and as recommending that this be raised to about one-third of educational costs over the next decade. (The Committee on Economic Development also recommended a doubling of public tuition levels, in the next four years, so that they would

reach 50 per cent of educational costs, implying that they now are at 25 per cent of educational costs, or 50 per cent higher than the Carnegie Commission found them.)

Nothing in the Carnegie Commission's "Who Pays?...." report that I was able to find, indicates that the above interpretations were wrong. Nor do papers recently presented before the Southern Regional Education Board's legislative work conference by the Commission's chairman, or before the American Council on Education by its former Senior Research Associate, Dr. Allan Cartter.

Well, I have good news for you. What the Carnegie Commission meant was that by the end of the next decade, gross tuitions in public institutions should approximate one-third of instructional costs. This interpretation, furnished by Dr. Verne Stadtman, Associate Director and Editor for the Commission, is good news indeed. Gross tuitions for undergraduates in public universities have already reached, and may already exceed, the 1983 "goal" of the Commission. This, I hasten to add, is my interpretation, not Dr. Stadtman's. However, Dr. Stadtman did say: "You are quite correct in concluding that many institutions already approach, meet, or exceed the tuition levels recommended by the Commission. And among those institutions are many public institutions, especially some of the more comprehensive and better known land-grant institutions. In our recommendation we were not talking about across-the-board increases of tuition for each and every institution. Many public institutions have only a short way to go before reaching the one-third level, and some are already there. But there are also some public institutions that, perhaps unrealistically, maintain tuition levels that are much, much lower."

Now the problem between Dr. Stadtman's clarification of the intent of the Commission recommendations, and what the Commission appeared to say, in fact did specifically say in its statement of actions required to carry out its recommendations, is that the Commission based both its statements about the percentage of tuition costs now paid by the "average" student, and its statements about the increases required to attain "one third of educational costs" on the concept of "net" tuition receipts. There is thus an absolute and irreconcilable contradiction between the intent of the Commission as stated by Dr. Stadtman, and the statement of the Commission in the report "Who Pays?..." that carrying out this intent will require public tuition increases of 10 to 12 per cent a year for the next 10 years. It is high time the Commission publicly and clearly clarify its intent, and change its specific recommendations on public tuition policy accordingly. A recommendation that gross tuitions--that is, the level of required instructional fees in public institutions--approximate one-third of instructional costs, is at least modest in terms of some extreme suggestions being advocated, whether one agrees with it or not. The statement that this will require more than doubling average fees in the next 10 years (10 to 12 per cent a year compounded) is simply not true--in fact is grossly inaccurate. And if any members of the Commission, or its staff, did intend to recommend that net tuitions rise to one-third of educational costs by 1983 I can say only that this is an extremist, drastic proposal, whose achievement would require some students to pay far more than one-third of their instructional costs, perhaps more than 100 per cent of their instructional costs, as the evidence indicates some students in private institutions, and some non-resident students in public institutions, are already doing.

My statement that standard (Gross) tuition charges in public universities already approximate or exceed one-third of instructional costs, particularly at the undergraduate level, is based on two pieces of evidence:

(1) The study Sources of Funds to Colleges and Universities made for the Carnegie Commission by Dr. June O'Neill, then of Brookings Institution gives, in Table 8, page 12, the following information:

For all public higher education, gross tuition represented 19.7 per cent of instructional costs in 1967-68, and 22.5 per cent of standard undergraduate costs. For public universities, the figures were 22.8 and 28 per cent, respectively. For other public 4-year institutions, the figures were 17.4 and 19.2 per cent, for 2-year institutions, 14.8 per cent.*

(2) Between 1968 and 1973, required charges for full time, undergraduate, degree credit students in all public institutions increased by 12.1 per cent in constant dollars. In public universities the increase was 22.6 per cent.

Now if gross tuitions represented in 1967-68, 22.8 per cent of all instructional costs in public universities, and 28 per cent of undergraduate instructional costs, a 22.6 per cent increase since then in constant dollars, should bring both figures well over the Carnegie Commission goal of "one third of instructional costs" and in the case of undergraduates, close to the Committee on Economic Development's "goal" of 50 per cent.

* These figures exclude Federal funds for organized research and public service as a subsidy for instruction. The Carnegie Commission includes 25 per cent of such funds. Nevertheless I believe the O'Neill figures--for reasons too complicated to enumerate here--exaggerate student instructional costs in both public and private institutions, particularly in universities. The Carnegie Commission exaggerates them still more.

This brings me back to what the Commission said in Who Pays? about future tuition levels in public higher education. I quote from page 128:

"If average tuition levels in the public sector for state residents are to rise from 15 per cent of educational costs in 1979 to approximately one third in the early 1980's, this would mean an average annual increase in the decade equal to about 10 to 12 per cent, a somewhat higher rate than has been experienced in the recent past." (A footnote states that total tuition and fee income, from both residents and non-residents, average 17 per cent of educational income of public institutions in 1970-71, a figure based on net tuition income.)

Now consider page 11 of the same report:

"It will take some time for public tuition to rise to one third of educational costs without departing too greatly from recent developments. Public tuition has risen over the past 5 years at a rate 20 per cent faster than the rate of increase in per capita disposable income during the period 1960-1972. If this faster rate of increase of tuition were to continue, and if educational costs were to rise at the same rate as per capita disposable income it would take a very long time, well into the 21st century, for public tuition to reach one third of educational costs. To reach the one third figure in one decade (1983) would take a rise of up to twice the rate of increase in per capita disposable income (or an increase of about 10 to 12 per cent a year in tuition if per capita disposable income were to rise 5.8 per cent per year as it did from 1960 to 1972)."

It might be noted that the Chairman of the Commission, addressing southern legislators in August, stated that "public tuition has not been rising as fast as per capita disposable income." True, if you go back far enough. But to quote page 11 of the Commission report public tuition has been rising in the

past 5 years at a rate 20 per cent higher than the 1960-72 rate of growth in per capita disposable income? Dr. Kerr told the same conference that "We have suggested that, over a 10-year period, public tuition might rise from its current one-sixth of instructional and general expenses to about one third, provided that grants for low income students keep pace." He described the "third of instructional costs" charge to students who can "afford to pay" as constituting "rough justice in the assessment of costs."

The point is, again, that the rough justice Dr. Kerr is talking about has already been achieved, on the average, in public universities, and is not far off in other 4-year institutions.

The Commission doesn't want tuitions to rise much in 2-year institutions, or in the first two years of 4-year institutions. It does recommend special increases at the upper division and graduate level, but again mentions the goal of an average of "one third of instructional costs". Where did all the statements about the necessity for "doubling" public tuition to reach "one third of educational costs" come from? Clearly, from confusing net and gross tuition levels.

If the Commission meant that net tuition revenues in public institutions should equal one third of costs, using the formula followed by the Commission in arriving at "net" revenues, it is proposing something by which the supposedly more extreme recommendations of the Committee on Economic Development are mild.

Let me illustrate: If an institution with 1,000 students wants to collect 33 per cent of net instructional costs from students, the "average" student must pay 33 per cent of "average" instructional costs. If one third of the students at such an institution receive subsidies from any source, which covers their tuition charges, then (according to the method used to arrive at

"net" tuition) the remaining students must pay 50 per cent of their costs, to make the average "net" tuition 33 per cent.

Every additional economically disadvantaged student receiving a Federal, state, institutional, or private grant to pay tuition--every Vietnam veteran under the GI bill, every student going to college under the social security program, would represent a new financial burden for the unsubsidized student, whose fees would have to be raised to make net tuition income equal one third of costs.

If this sounds absurd, it is not an absurdity I have created. It was created by the Commission, in stating the actions necessary to carry out its tuition recommendations, in terms of net tuition.

Other statements in the Commission report indicate this is not what the members had in mind. The Commission states that the cost of assuring opportunity for low-income students should be a charge on society, not on other students. But its specific recommendations on public tuition policy would in fact clearly place a large part of the cost of subsidizing low income students on the families of other students.

This has already happened to a substantial extent. In her study Sources of Funds to Colleges and Universities, done for the Carnegie Commission, Dr. June O'Neill, commenting on the period 1929-30 through 1967-68, says (p.4):

"(The) 'price' charged to students for a college education increased dramatically, relative to the price of other goods and services in the economy."

During the entire period it went up at twice the rate of the Consumer Price Index, and from 1953-54 through 1967-68, at almost three times that rate. Dr. O'Neill found that, in 1967-68 unsubsidized undergraduates in private institutions "may have paid for as much as 83 per cent of their costs."

Since 1967-68, in constant dollars, required tuition and fees in all private institutions have increased by 19.6 per cent, and in private universities by 18.2 per cent. This raises the question of whether the "average unsubsidized undergraduate" in private universities is not now paying 100 per cent of his or her instructional cost. An "average" being just that, the implication is that many students are paying more than 100 per cent.

Increases since 1967-68, in constant dollars, are for all public institutions (as noted above) 12.1 per cent, for public universities 22.6 per cent, both figures for undergraduates.

Going back to 1960-61 as a basis for comparison, we find (Projections of Educational Statistics, 1971 edition, Table 43) that in constant dollars: Required fees for undergraduates in all public institutions increases by 27.7 per cent as of 1972-73. They increased 41.37 per cent in public universities, 58 per cent in other 4-year public institutions, and 105.5 per cent in public 2-year institutions. In all private institutions, the constant dollar increase in the same period was about 53.8 per cent, in private universities 55.4 per cent.

The pressure to increase tuition fees is, of course, accentuated by Federal programs. In the 1972 Higher Education Amendments, Congress, influenced in part at least by the Carnegie Commission and the activities of the College Entrance Examination Board, rejected general formula institutional support, though it did accept, in theory though under conditions which made its implementation improbable, the principle of special tuition supplements to institutions to help bear a portion of the cost of education of economically disadvantag students, and reduce pressures to raise tuition. This last program has not been implemented, and the Carnegie Commission's Who Pays? report virtually withdraws the Commission's

endorsement of this program, about which it was so enthusiastic as an alternative to formula support. It would have the Federal government say, in effect: "We think it is greatly in the national interest that substantial additional numbers of the economically disadvantaged be given access to higher education. We will provide, through grants to individuals, some of the money to make this possible. If you need more money to provide education and special services for these students, raise your fees or get it from the states or private donors."

Since the passage of this Act, I note, management consultants have been busy advising state legislatures that they can get a great deal of Federal money and save a lot of state money by jacking up fees. This will make many thousands more students unable to get access to higher education, and thus eligible for a Federal grant on the basis of "demonstrated need." We used to call this a "pauper's oath" or a "means test." Now we call it "demonstrated need" and one of the fastest growing professions is that of "financial need analyst."

The worst sufferer from all this is going to be the disadvantaged student. The American people will accept the proposition that, in equity and because of the societal benefit involved, economically disadvantaged students should be given special help to insure access to higher education. What they will not accept, is the proposition that they and their children should pay through the nose for higher education, on the theory that it is a "private benefit" and at the same time be taxed--or make sacrificial private contributions --so that the education of other people's children can be subsidized because of the societal benefit involved.

State Responsibility for the Institutional Welfare of Higher Education Within Its Borders

The essential distinctions between public and private higher education are usually defined in terms of "control" and "support". A common fallacy is to assume that the fundamental distinction is in terms of "control"--that is, whether public or private authority is responsible for naming a majority of the institutional governing board. There is no warrant for this assumption in law or in logic. Title IV of the Civil Rights Act of 1964 defines a public institution as one operated by the state, or predominantly supported, directly or indirectly, by public funds. Webster gives a similar definition. The historic Dartmouth College case revolved around the question of whether New Hampshire, having given Dartmouth a charter and a substantial grant of public land, could ignore the charter and take control of the institution. The Supreme Court, held it could not, so long as Dartmouth complied with the terms of the charter. But no court, to my knowledge, has ever held that a state may not attach whatever requirements it wishes to a new or continuing subvention. There is a considerable list of court decisions revolving around the question of the extent of state fiscal involvement in the support of institutions whose governance is "private" in composition. The issue in each case is whether the state subvention is great enough to make the institution legally "public."

This is a prelude to saying that when one speaks of "independent" higher education as a synonym for "private" higher education in this country, the world has meaning in only one context: That of "independence" from government. No institution is independent of its sources of support. Colleges predominantly supported by public funds are comparatively "independent" of the individuous pressures sometimes exerted by private donors. Colleges predominantly privately supported are relatively independent of individuous pressures from

public authority. This relative independence of each "type" is the basic source of diversity and variety in American higher education.

In 1972 Dr. Allan Cartter, Senior Research Associate of the Carnegie Commission, addressing legislators of the Southern region, advocated elimination of the "dichotomy" between public and private higher education. This, he said, would be a fine thing provided proper provision was made for the continued independence of private higher education. The Carnegie Commission says that private institutions must be "accountable" for public funds, but should be allowed to retain their essentially private character. My exposure to instruction in natural science while an undergraduate has made it difficult for me to comprehend eliminating a dichotomy but simultaneously keeping it.

The Commission has recommended that the states assume responsibility for the institutional welfare of both public and private higher education within their borders. It recommends that states require public institutions to raise their fees sharply, partially to close the "tuition gap"; that state tax funds be shifted substantially to grants to students; and that states might provide direct instructional support to private higher education, through a formula based on not to exceed one fifth of the cost per FTE undergraduage at "comparable" public institutions. There is heavy emphasis, however, on channeling funds through students, in part on the theory that this is likely to result in less public "control" of private institutions, than is direct institutional support.

I find the Commission's logic singularly unconvincing. Its 1972 report on Institutional Aid strongly opposed Federal formula institutional support, then proposed on a modest basis. It foresaw all sorts of disastrous consequences. Many of the "dangers" foreseen in Federal formula institutional support are inherent in any form of support. The point is, that to the extent

they exist they are compounded at the state level in terms of eliminating public-private distinctions. States do and will continue to insist that public subsidies of undergraduate education be related to education of state residents, thus subjecting private higher education to the same parochializing (I of course use the term in its secular sense) influences so disturbing today in the case of public higher education. State officials, and the public, will be concerned with fee levels in relation to costs, with emphasis on teaching as contrasted with research; with faculty work loads; controversial statements by state members, student distruptions. Coordinating boards will want to coordinate, to assign missions and roles.

The question is not whether private institutions perform substantial societal services through the education of students. Of course they do. They receive substantial tax support, directly and indirectly, through exemption from taxes, heavy tax subsidy of "voluntary" contributions, and Federal programs. If, as the Carnegie Commission and many others who have studied the situation assume, they need substantial additional public support to remain fiscally "viable", the question is: How can this be provided while still maintaining any significant "public-private" distinction? At least a partial answer is a modest program of formula-support by the Federal government to all institutions constitutionally eligible to receive it. Many of the problems bound to arise at the state level, such as the "resident-non-resident" issue, do not exist in the case of Federal formula support. Others are less likely to arise, so long as the Federal program represents a minor fraction of instruction costs.

Those that do arise could be met by a united front of all higher education, rather than the divisiveness sure to be accentuated in the states, if and as the Carnegie Commission's recommendations are implemented.

I also suggest that implementation of this Commission recommendation would have an adverse effect on support through private, tax-assisted, voluntary giving. It will be increasingly difficult to persuade donors that alma mater needs support, if it is widely known that the states have assumed responsibility for her welfare.

The experience of Canada may be instructive. Until a few years ago it had a relatively flourishing system of public and private higher education. Both public and private institutions were partially financed by "Federal" grants, allocated by provinces on a per capita basis, and to institutions by the Canadian Universities Foundation, an agency of the voluntary organization encompassing all Canadian higher education. Under this system, private institutions barred by provincial law or constitutions from public support, could receive it from Federal sources.

Then the central government reversed its stand, largely at the insistence of Quebec. Direct "Federal" support of undergraduate education was abandoned, and a portion of Federal taxes remitted to the provinces, which were then given full responsibility of the welfare of all higher education within their borders. I have made no personal study of the effect of this policy change but my friend Geoffrey Andrew, long-time executive officer of the Association of Canadian Universities and Colleges, recently wrote me that the essential result was that private higher education no longer exists in Canada.

The Tuition Gap

The Carnegie Commission has stated that one of the objectives of its recommendations is to help private higher education, without injuring public institutions. One of the ways recommended to do this is the "narrowing of the

tuition gap" by increasing student charges in public institutions substantially. In my own period as a university teacher and administrator, I was not given to making a distinction between "injuring" the institution, and "injuring" its students. In any event this type of argument is fallacious, akin to suggesting that tax and other subsidies now given private institutions be eliminated, in order to provide funds to finance public higher education. The case for raising (or lowering) fees in public institutions ought to stand on its own merit, as should the case for assisting private institutions. Even if one allows the validity of this type of justification, which I do not, the case for it is weak. The case is, essentially that the "rising tuition gap" between public and private institutions is a source, or the chief source, of the fiscal and other problems of private institutions. As Dr. Allan Cartter told the legislative workshop of the Southern Regional Education Board in 1967 the "charge" is that "there has been no difference in the rate at which costs are rising for public and private institutions; the difference lies in the willingness of state legislatures to absorb a rising proportion of the cost of education in public institutions in the form of tax support...."

This theme, that the problems of private higher education are primarily due to the failure to raise public tuitions in proportion to increasing costs, was repeated by Dr. Cartter before the same group in 1972, and before the American Council on Education in 1973.

I have already noted elsewhere in this paper, that gross tuition charges in public institutions have increased in recent years at several times the rate of increase in the consumer price index, at a rate in recent years substantially higher than average disposable family income and, I might add, greater than the special index of rises in educational costs developed in the study of Resource

Use in Higher Education, used to estimate changes in "productivity" in higher education. Dr. O'Neill found, in this study, incidentally (Tables E-3 and E-4, pages 99 and 100), that between 1953-54 and 1966-67, costs per credit hour in constant dollars, decreased in all public institutions, all public universities, all public 4-year institutions, all public 2-year institutions. These increased in each of the categories of private institutions except 2-year institutions.

If adjustments are made for the higher cost of graduate education, costs per credit hour in public universities dropped, in constant dollars, from $35.1 to $31.6 between 1953-54 and 1966-67, while those in private universities increased from $34.1 to $40.1. The finding that productivity in higher education has not increased, was based on an average of figures for all types of public and private institutions. Public institutions, on the basis of the figures, increased their productivity. They provided instruction at deceased cost per credit hour in "real" terms. The reverse was true in the average of private institutions. At the same time their fees rose at rates far in excess of any index of "cost inputs". Fee levels in private institutions rose much faster, not only in proportion to instructional costs, which were rising "in real" terms rather than dropping, but also out of proportion to instructional costs.

Dr. O'Neill, puzzled over the extremely sharp rise in private tuitions, notes that (Sources of Funds, pp. 25-26) while philanthropy as a source of funds has increased faster than national income, it has not kept pace with enrollment growth plus input price increases. She notes that between 1967-68 and 1971, Federal research funds dropped by $800 million, commenting that "It is no wonder that private schools, which had come to

depend heavily on this source, now find themselves in difficulty, particularly if they wish to continue to do the research."

In summary, she says:

"The observations noted here suggest a number of reasons why private institutions have increased the proportion of instructional expenditures covered by student tuition. Less than adequate increases in private philanthropy may have induced tuition increases. Rapid increases in student aid payments, particularly from the federal government, may have induced private institutions to increase tuition charges and, as noted earlier, increase the dispersion of charges among students according to income. Also, private schools may have decided to increase the extent to which they subsidize activities other than student instruction, such as research for which federal payments are slowing down."

Allan Cartter, in an address at University of Southern California in the fall of 1971, described the plight of New York University and others similarly situated, as "a casualty of the Vietnam war" noting that Federal funds to N.Y.U. had dropped $3 million in current dollars and $6 million in real dollars in a comparatively brief period, the prospect being running huge deficits, firing several hundred tenured professors and twice that number of supporting staff and making other drastic expenditure cuts, or "taking already scarce resources from the instructional budget." The second alternative, he describes as unrealistic.

The fiscal problems of many private institutions are very real. In the case of private universities, they are largely the result of drastic changes in Federal policies of funding research and graduate education. Many public universities have experienced similar problems, though not in quite such acute

form. I do not believe the responsibility for solving these problems should be shoved off on students, particularly undergraduate students. There are many approaches to solving this problem, one of which is for the level of government which created it, to take responsibility for solving it. A modest program of Federal formula support, such as that authorized by the Miller Bill developed by this Association, would have gone far to bridge the gap. New York University, for example, would have received for instructional support approximately the amount it lost in Federal research support.

In any event it is clear that it has not been willingness of state governments to absorb an increasing proportion of educational costs in public institutions which has caused the "tuition gap" to "rise". Public tuitions have gone up, in recent years, substantially faster than any of the indices of rising costs, or disposable income.

The Carnegie Commission and Institutional Support

The Carnegie Commission's recommendations in Who Pays? will, if implemented, bring strong pressures toward increasing student tuitions, and reducing sources of institutional support, both in public and private institutions, but particularly in public institutions.

Let us take public institutions first. In its report on "Institutional Aid" the Carnegie Commission opposed formula Federal support to all higher education, on, among other grounds, the thesis that it might cause the states simply to reduce state institutional support by the amount of Federal support. States which now have high income levels and are at the bottom in relative public financing of educational opportunity for their young people, would, it was said, be the greatest beneficiaries. While maintenance of effort or

matching requirements might mitigate this problem there is some validity to the argument.

It is, however, equally applicable to subsidies of individual students. The Carnegie Commission has strongly supported the proposition, now a part of Federal higher education law but not yet implemented, that in addition to providing large sums for the direct subsidy of low-income students, several millions of dollars be appropriated to match additional state grants to individuals. The law as enacted requires that this money is available only for increases in state subventions to low income students. There is no requirement that this be funds in addition to total present, state support of higher education. It is not surprising that it has occured to many state legislators, budget officers, student financial aid administrators, and others, that for every dollar removed from the support of public higher education and converted into student assistance, a matching Federal dollar will be forthcoming. The Commission has recommended that this requirement of "new" student aid money be removed, in fairness to states which already provide substantial student assistance. This may mitigate the pressures toward cutting public institutional support still further in states which already have heavy investments in student-funded aid, but it won't change the picture in states which don't.

The Carnegie Commission has also, if my understanding of what they said conforms to reality, is about to withdraw its support of the only Federal form of what it insisted on calling "general institutional support" it has endorsed at the undergraduate level. Payments were to be made to the institution on behalf of each Federally subsidized student, partially to reimburse it for the added cost involved, beyond tuition charges--thus reducing the pressures to

make other students pay more. The Who Pays? report (p. 114) says "The fact that the Basic Opportunity Grants program has been designed to meet a certain proportion of the students' full costs, including both tuition and subsistence, means that the cost of education supplements recommended by the Commission may no longer be necessary. We had intended the E.O.G. program to cover subsistence costs only, and had proposed cost of education supplements as a means of assisting colleges and universities in holding down their tuition charges."

Well, the cost of education supplements, for large universities, were to be only $100 per student--as Congress decided--but they would have helped.

Now the Commission is saying, as I understand it, that somebody other than the Federal government is going to have to pay the increased cost, every time a Federally-aided student is accepted. In short: raise tuitions, for everybody. A year ago this summer I appeared on the same platform with Dr. Allan Cartter, who had recently been named Senior Research Associate for the Carnegie Commission. Dr. Cartter told a group of state legislators, and I quote:

"In addition the Pell entitlement grant of $1,400, less parental support, introduces a whole new approach to enabling students from low income families to attend college. If this provision were fully funded...its effect over several years would be to encourage tuition charges in public institutions to rise toward that $1,400 level. When fully implemented, even the public institution can be assured that each student can afford at least $1,400. This provision might be considered an indirect way of sharing revenue, providing

financial relief to the states by the federal government's assuming the first $1,400 of the burden of student cost."

In plain language, Dr. Cartter was saying that states ought to take the full amount of funds provided for helping low income students to pay the cost of board, room, books, clothing, and tuition, in the form of tuition, and make other students pay this same amount. This would indeed be a remarkable form of revenue sharing. The states would get all the Federal money going to the student for his Basic Opportunity Grant; a large additional number of students would be priced out of college and have to get grants; and they could all go to the proposed National Student Loan Bank and borrow the money to pay non-tuition college expenses.

I do not hold the Carnegie Commission responsible for the individual views of Dr. Cartter, expressed more than a year ago. But I do say that the passage of the Pell amendment has generated a lot of this type of thinking across the country.

In addition to this, noted elsewhere, the Carnegie Commission has suggested that states might appropriately start direct institutional support of private higher education, at a level "not to exceed" 15 per cent of educational cost per undergraduate student in a comparable public institution. On page 185 of the Commission report, appears an "illustration" of the working of this, in which it is stated that: "The average student in a public institution paid $416 in tuition and fees and received a subsidy (predominantly from governmental sources) of $2,025. If our suggested one-fifth of public educational cost guidelines were applied, a state institutional grant would not exceed $488 per student in private institutions." Now this is an

irrelevent, nonsensical, and confusion-generating statement, which may rise to haunt you in your states.

The Commission did not recommend a state subsidy based on one-fifth of FTE student cost in the "average" public institution, but not to exceed one-fifth of the undergraduate cost in a comparable public institution. In the second place, the illustration used is wholly based on the inclusion of millions of dollars--hundreds of millions would be more accurate--in Federal and state funds as "student subsidies" which do not in fact subsidize the "average" student as the term is commonly understood. The figure of $488 per student is around 50 per cent of the instructional cost of many students at many levels in many, many public institutions, and far in excess of one fifth of instructional cost for undergraduates in all but a few highly expensive, atypical, programs.

To sum up the Carnegie Commission recommendations, if implemented, would bring pressures to (1) rely on increased tuition fees, without any Federal help to keep them down, to meet the educational cost of increased opportunity for low-income students; (2) divert state support from public institutions to individual student aid, requiring tuition increases (3) encourage raising tuitions to get more Federal money (4) use state revenues for private rather than public institutional support.

For private institutions, the state formula support received would be helpful in holding down tuition charges. Otherwise, I suggest, strong pressures to raise tuitions would continue, increased by the additional availability of Federal and state student assistance grants.

Most serious of all, I think, for private institutions which seek to emphasize their private character, would be the erosion of one of the most

compelling arguments for private institutional support. If the states are to be responsible for institutional welfare, what are the implications for the case for private institutional support?

The National Student Loan Bank

The Carnegie Commission has again endorsed, with new recommendations in detail, a Federally sponsored National Student Loan Bank, with borrowings repaid over a long term period through the Internal Revenue Service. This hardy perennial has an interesting history, since the idea was first brought to widespread public notice by the Zacharias committee's endorsement of an "Educational Opportunity Bank" in 1967. The report of the Zacharias committee, to which Dr. Allan Cartter was one of the chief consultants, is--incidentally--the only reference source on this subject listed by the Commission in its report.

The Zacharias report recommended that repayments be made through a flat percentage of taxable income paid by the individual borrower over a long-term period . It was argued that the program would be self-supporting, or nearly so, on the theory that payments from high-income persons would make up for losses on those with lower incomes. It was to be accompanied by grants to students from low-income families, and the report even went so far as to assert the hope that it would not result in reduction of public and other support for institutions as such, although a spokesman for the Treasury Department had been extolling it in a series of talks to business and financial groups, as a new way of financing higher education for everybody while cutting public tax support. N.A.S.U.L.G.C. and other organizations raised strong objections to the plan on various grounds. Among them the probability that this would be seized on--regardless of the recommendations in the report--as the principal means of

financing higher education by a lifetime tax on the earnings of those who go to college. Economists noted that the Bank would be highly inflationary in its early years (as much as 14 to 20 billions a year), which would have to be countered by increased taxes or reduced governmental expenditures in other areas, including education. Some of the economists also said that subsidies to low income students could not be justified on economic grounds, unless it could be shown that college graduates so subsidized would be more economically productive than other students! The objections raised were widely denounced, but--for some years--none of the denouncers made any effort to study their validity. Finally the Ford Foundation, whose president was one of those who were most unhappy over the objections voiced to the plan, did finance an extensive study, directed by an individual highly sympathetic to the general idea. The study resulted in a recommendation that no such plan should be endorsed "at this time" because of a number of uncertainties remaining to be studied. One of its findings, incidentally, was that students from disadvantaged families were particularly unenthusiastic about the plan.

In the fall of 1971, addressing the American Council on Education, Dr. Allan Cartter, then of New York University, proposed a new plan. It was part of what he described as an "ideal" system of financing instructional costs of higher education. Under it the Federal government would finance, through subsidies to institutions, 25 per cent of the cost of higher education. The states would finance 25 per cent of that cost in public institutions, but have no responsibility for private institutions, which hopefully would look to philanthropy to provide a similar subsidy. Finally, students would pay 25 per cent of instructional costs, by compulsory borrowing through a Federal loan

bank, collected through the Internal Revenue Service.

The "Compulsory" feature of the program proposed by Dr. Cartter was necessary, he said, in order to make those with potentially high incomes participate, in order to compensate for losses from low-income students, a confession that the 1967 proposal was unrealistic. Students could refuse to participate in the loan program, but if they did, they would lose the 25 per cent Federal contribution to their instructional cost, under the Cartter plan.

The Carnegie Commission now proposes a new loan program. The report says "If higher education is to move toward a pricing policy that places more reliance upon ability to pay, it will require both a generous grant program and a fully adequate loan program." The new proposed loan program would be unsubsidized. Interest would no longer be waived, as under the Guaranteed Student Loan Program, while the student is in college, and present ceilings on interest charges would be eliminated. Each borrower would pay back the amount borrowed, plus interest, over a long-term period. Interest charges could be deferred, but would be ultimately paid. Each individual would be responsible only for the amount of his or her own borrowings. Capital would be furnished by the sale of government bonds. Payments in any one year would be contingent on income: that is, those who have large families with heavy expenses, for example, could postpone payments until the children were grown, but would ultimately be expected to pay. Presumably interest rates would be based on the cost of funds to the government, at present around 7 per cent. There would be forgiveness only in the case of "catastrophe".

One of the major objections to this type of large-scale Federal loan program with Internal Revenue as the tax-collector, is the invitation it presents to those who want to hold down taxes, or balance budgets, or refuse to give to

Alma Mater, to make borrowing the sole method of financing higher education for those who can't pay cash through the bursar's wicket. The Commission's standard reply is that its recommendations are part of a "package", and it can't be criticized for what might happen if part of the package is accepted and part of it not. This is true but only up to a point. Any responsible group should weigh the clear probabilities. The widespread publicity given the Educational Opportunity Bank caused political figures in state after state to propose requiring students in public institutions to sign notes for the amount of the "public subsidy" involved in their education, to be repaid after graduation, with the hope of sharply reducing or eliminating a societal subsidy of higher education. It is beloved of many economists, some of whom have a wide following. The great attraction of a Federally financed student loan bank is that it would provide a new and bottomless source of funds to finance constant escalations in the price students and their families have to pay for education.

The Commission disposes of the problem of the "negative dowry" or double tax burden on families in which both husband and wife have to borrow heavily for college, by saying that a lot of women work now and earn income, and if they don't, the scheduled payment of one member of the couple could be postponed if family income below a certain minimum, say $7,500, while for a couple earning $15,000 or more, full payment of both loan schedules would be required. The report does not discuss the inflationary effect of the program in the early years. It is correct in saying that many of the criticized features of the present Guaranteed Loan Program would be eliminated in the proposed program. Without interest waivers, subsidized loan or forgiveness features, much of the policing required by the present system would be eliminated,

and borrowers would not have to prove need. The Internal Revenue Service would, of course, be saddled with a lot of new problems, including what to do about loan repayments of obviously well off persons, who don't pay income taxes, because of investments in tax exempt securities, or loopholes in the Internal Revenue Code.

My impression of this newest "loan bank" proposal is that it was developed rather hurriedly, without any serious analysis. It is accompanied by no estimates of inflationary impact, percentages of annual income required per $1,000 borrowed to discharge the debt, etc. It contains some interesting solutions to problems of current programs, dismisses other very real problems by assuming they don't exist. Although the Commission states that it is not intended the loans cover the full cost of education it is not, like the 1971 Cartter proposal, accompanied by specific recommendations designed to help prevent this from happening, for many students.

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Gross Tuition, Net Tuition "Average" Tuition

What is a Student Subsidy?

Gross and Net Tuition

Those who wish to find their way about in current discussions of the financing of higher education should be aware of the distinction between gross and net tuitions, how they are arrived at, and their significance.

The widely publicized findings of the Carnegie Commission on Higher Education, in its report "Who Pays?...." etc., as to the percentages of educational costs paid by the "average" student in public and private higher education are, for example, based on net tuition revenues.

Gross Tuition, in the studies on which the Commission based its recent recommendations, represents, as the name indicates, total tuition revenues.

Net Tuition, in the same studies, represents gross tuition, minus all public and private subsidies to institutions or individuals, which are used for "instructional purposes".

"Average" Tuition

In the Carnegie Report, and studies on which it is based, "tuition paid by the average student" is a figure arrived at by dividing full-time equivalent enrollment in higher education into net tuition revenues. It is by this process that the Carnegie Commission arrived at the assertion that the "average student in a public university pays about 17 per cent of educational costs, or 15 per cent if a resident student."

In the case of both "gross" and "net" tuition the "averages" of instructional costs arrived at per FTE student include all levels of instruction for credit, including graduate and professional work of all types.

What is a Student Subsidy?

Basic to an understanding of how the Carnegie Commission arrived at its figures on the cost of instruction per "average" FTE student, is its definition of student subsidy--since all "subsidies" which the Commission considered as going to higher educational institutions or individuals, from any source, were first included in the sum of instructional revenues received, and then deducted to arrive at the amount of net tuition revenues received. These "subsidies" include, among other things, 25 per cent of all Federal

payments to higher institutions for "research and public service". For 1970-71 this Federal portion of "subsidies" to the "average student" is given (Table 30, p. 108, Who Pays?) as $615 million in the form of "research and public service" subsidies and $1,330,000,000 in "other" institutional support coming from the Federal government.

This, then is a total of nearly $2 billion which the Carnegie Commission attributes as Federal instructional (educational and general) subsidies to U.S. higher education. It was not possible for me to determine, from the Commission report, the amount of this Federal subsidy attributed to public higher education. For 1970-71 it apparently was about $295 million for "research and public service". Using O'Neill's Sources of Funds (Table 11, p. 20) one finds the 1967-68 figure attributed to "other institutional support" for public institutions, by the Federal government, to be about $730.4 millions. Thus it is fair to conclude that the Commission attributed at least $1 billion in Federal funds exclusive of individual student subsidies to "instructional support of the average student" in public institutions, and deducted this amount from gross tuition paid, as part of its effort to get a "net tuition" figure for the "average" student. I believe this figure of "Federal instructional subsidy" is substantially inflated, and that the state "instructional subsidy" figures, also deducted from "gross tuition", also may be.

My opinion is that various items of either Federal or non-Federal origin, attributed by the Carnegie Commission to instructional (educational and general support) of the "average" student, and therefore deductible from gross tuition income, are not properly so attributed, in any generally accepted and widely understood sense. If this is correct the effect, both for public and private higher education, is to underestimate that portion of instructional costs paid by degree-credit students, quite substantially.

Be that as it may, the Commission is seriously at fault in not making clear in its general summaries of findings and recommendations, and other public statements, what it was talking about in its use of "net" tuition figures. The general public, and public policy makers, are entitled to know, for example, that "average net tuition" is meaningless in terms of the proportion of instructional costs actually paid by or on behalf of the vast majority of students. If, for example, one third of every 1,000 students receive tuition subsidies under programs for veterans, social security or Federal, state, or private opportunity grants, the other two thirds must pay 50 per cent of full educational costs, for the "average" to reach 33 per cent. One-fourth of a million dollar grant for cancer research in a medical school may conceivably represent a $250,000 instructional subsidy for a few M.D. and Ph.D. candidates in that school. It does not represent an instructional subsidy for those not enrolled in the medical school, and unless it covers "full costs"--or if the grant is suddenly reduced in the following year by half--other sources must make up the deficit and general tuition increases are not infrequently the result. Is government then "subsidizing the average student" or is the average student subsidizing programs clearly initiated by government as "in the national interest"?